

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Shelby Township</b>	County <b>Oceana</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>8/19/05</b>	Date Accountant Report Submitted to State: <b>9/21/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

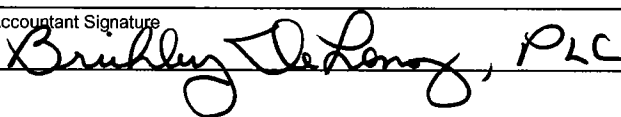
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Brickley DeLong, PLC</b>			
Street Address <b>500 Terrace Plaza, P.O. Box 999</b>		City <b>Muskegon</b>	State <b>MI</b>
		ZIP <b>49443-0999</b>	
Accountant Signature 			Date <b>9/21/05</b>

Shelby Township  
Oceana County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended March 31, 2005

Shelby Township  
**LIST OF ELECTED OFFICIALS**  
March 31, 2005

Supervisor..... Samuel Flemming

Clerk.....Robert F. Pochyla

Treasurer.....Julie Near

Trustees .....Cindy Rapes  
Kenneth Near

Shelby Township

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As management of Shelby Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of Shelby Township for the fiscal year ended March 31, 2005. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter. To those familiar with the prior year financial statements or just new to this document, it is important to know that the Township is presenting this analysis along with these statements in a new format prescribed by the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34).

### FINANCIAL HIGHLIGHTS

The General Fund fund balance decreased \$76,498 because a portion of 64<sup>th</sup> Avenue was paved and major improvements were made on Buchanan Road.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. Shelby Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Shelby Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories—governmental funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

Shelby Township maintains one governmental fund, the General Fund.

**Fiduciary Funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the government-wide financial statements.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund.

**Government-wide Financial Analysis**

The first table presented below is a summary of the government-wide statement of net assets for Shelby Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2005, the Township's net assets from governmental activities totaled \$1,013,398. Since this is the first year the Township has prepared financial statements following GASB 34, comparisons to fiscal year 2004 are not available. However, these comparison schedules will be provided in future years.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$869,549. This represents the amount of discretionary resources that can be used for general governmental operations.

**Net Assets**

	Governmental Activities 2005
Assets	
Current assets and other assets	\$ 869,549
Capital assets	143,849
Total assets	<u>1,013,398</u>
Net assets	
Invested in capital assets	143,849
Unrestricted	869,549
Total net assets	<u><u>\$ 1,013,398</u></u>

**Governmental Activities**

Governmental activities decreased by \$78,594 during the 2005 fiscal year. With all of the Township's governmental operations combined, the net result was that its operating revenues exceeded its operating expenditures, producing the resulting net assets. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

**Change in Net Assets**

	Governmental Activities 2005
<b>Revenues:</b>	
Program revenues	
Charge for services	\$ 3,940
Operating grants and contributions	2,830
General revenues	
Property taxes	111,142
Grants and contributions not restricted	113,678
Unrestricted investment earning	14,993
Miscellaneous	6,174
<b>Total revenues</b>	<u>252,757</u>
<b>Expenses:</b>	
General government	140,481
Public works	177,079
Community and economic development	12,477
Culture and recreation	1,314
<b>Total expenses</b>	<u>331,351</u>
<b>Change in net assets</b>	(78,594)
<b>Net assets - April 1, 2004</b>	<u>1,091,992</u>
<b>Net assets - March 31, 2005</b>	<u>\$ 1,013,398</u>

### **Financial Analysis of the Government's Funds**

As stated earlier in this discussion and analysis, Shelby Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of Shelby Township governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, Shelby Township's only governmental fund, the General Fund, reported an unreserved fund balance of \$869,549. The unreserved balance represents what is available for spending at the Township's discretion. The General Fund does not have any fund balance that is reserved, which means that all fund balance is available for new spending.

### **General Fund Budget**

During the current fiscal year, the Township did not make any amendments to its original budget.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Property tax revenues were under budget by \$33,858 because of an overestimate of collections at the time the original budget was adopted.
- Street improvements were over budget by \$115,436 because the budget was not amended to reflect new projects on 64<sup>th</sup> Avenue and Buchanan Road.
- Other governmental functions were under budget by \$23,674 because the Township did not use its contingency budget.

**Capital Assets.**

Shelby Township investment in capital assets for its governmental activities as of March 31, 2005 totaled \$143,849 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements and furniture and equipment.

There were no significant capital asset additions or disposals in 2005.

**Capital Assets**

	Governmental Activities 2005
Land	\$ 34,900
Buildings and improvements	115,839
Furniture and equipment	<u>2,000</u>
Total capital assets	152,739
Less:	
Accumulated depreciation	<u>8,890</u>
Total (net of accumulated depreciation)	<u>\$ 143,849</u>

Additional information on the Township's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

**General Economic Overview**

Shelby Township has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Township's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised over 90% of the General Fund's revenue sources. In fiscal 2006, state revenue sharing is expected to decline slightly. Property tax revenues should increase by the rate of inflation.

The Township expects General Fund expenditures in 2006 to be lower than the 2005 expenditures due to a planned decrease in road improvements. The Board does not plan to have any major capital outlays or other significant or unusual transactions and expects an increase in fund balance in the General Fund.

**Requests for Information**

This financial report is designed to provide a general overview of Shelby Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Shelby Township, P.O. Box 215, Shelby, Michigan 49455 (231) 861-5853.

# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

August 19, 2005

Township Board  
Shelby Township  
Shelby, Michigan

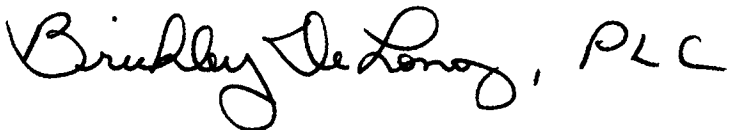
We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Shelby Township as of and for the year ended March 31, 2005, which collectively comprise the Township's financial statements as listed in the table of contents. These financial statements are the responsibility of Shelby Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of Shelby Township, as of March 31, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, Shelby Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of March 31, 2005.

The management's discussion and analysis and budgetary comparison information on pages i through vi and 17 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.



Shelby Township  
**STATEMENT OF NET ASSETS**  
March 31, 2005

ASSETS

	<u>Governmental activities</u>
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 838,586
Receivables	13,527
Due from other governmental units	<u>17,436</u>
Total current assets	869,549
 <b>NONCURRENT ASSETS</b>	
Capital assets, net	
Nondepreciable	34,900
Depreciable	<u>108,949</u>
Total noncurrent assets	<u>143,849</u>
Total assets	1,013,398
 <b>NET ASSETS</b>	
Invested in capital assets	143,849
Unrestricted	<u>869,549</u>
Total net assets	<u><u>\$ 1,013,398</u></u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2005

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
				Governmental activities
Governmental activities				
General government	\$ 140,481	\$ 675	\$ 2,830	\$ (136,976)
Public works	177,079	2,265	-	(174,814)
Community and economic development	12,477	1,000	-	(11,477)
Culture and recreation	1,314	-	-	(1,314)
Total governmental activities	<u>331,351</u>	<u>3,940</u>	<u>2,830</u>	(324,581)
General revenues:				
Taxes				
Property taxes, levied for general purposes				111,142
Grants and contributions not restricted to specific programs				113,678
Unrestricted investment earnings				14,993
Miscellaneous				<u>6,174</u>
Total general revenues				<u>245,987</u>
Change in net assets				(78,594)
Net assets at April 1, 2004				<u>1,091,992</u>
Net assets at March 31, 2005				<u>\$ 1,013,398</u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**BALANCE SHEET**  
Governmental Funds  
March 31, 2005

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 838,586
Taxes receivable	13,527
Due from other governmental units	<u>17,436</u>
Total assets	<u>\$ 869,549</u>
 FUND BALANCE	
Unreserved	<u>\$ 869,549</u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**  
March 31, 2005

Total fund balance—governmental funds	\$	869,549
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$	152,739	
Accumulated depreciation		<u>(8,890)</u>	<u>143,849</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>1,013,398</u></u>
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The accompanying notes are an integral part of this statement.

Shelby Township  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
 Governmental Funds  
 For the year ended March 31, 2005

	General Fund
REVENUES	
Property taxes	\$ 111,142
Licenses and permits	911
Intergovernmental revenues - state	116,508
Charges for services	984
Investment earnings	14,993
Other	8,219
	<hr/>
Total revenues	252,757
EXPENDITURES	
Current	
General government	136,059
Public works	177,079
Community and economic development	12,477
Culture and recreation	1,314
Other governmental functions	326
Capital outlay	2,000
	<hr/>
Total expenditures	329,255
	<hr/>
Net change in fund balance	(76,498)
Fund balance at April 1, 2004, restated	1,091,992
	<hr/>
Fund balance at March 31, 2005	\$ 1,015,494
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The accompanying notes are an integral part of this statement.

Shelby Township  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 For the year ended March 31, 2005

Net change in fund balance—total governmental funds	\$	(76,498)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(4,096)	
Capital outlay		<u>2,000</u>	<u>(2,096)</u>
Change in net assets of governmental activities	\$		<u><u>(78,594)</u></u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**STATEMENT OF FIDUCIARY NET ASSETS**  
Fiduciary Funds  
March 31, 2005

	<u>Trust and Agency</u>	<u>Current Tax</u>	<u>Total Agency Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ <u>839</u>	\$ <u>43,986</u>	\$ <u>44,825</u>
<b>LIABILITIES</b>			
Due to other governmental units	\$ <u>839</u>	\$ <u>43,986</u>	\$ <u>44,825</u>

The accompanying notes are an integral part of this statement.

Shelby Township  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Shelby Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Effective April 1, 2004, the Township adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The General Fund opening fund balance was also restated to correct a misstatement in prior year state shared revenues and property tax accruals. As a result of the correction of these errors, the General Fund fund balance was increased by \$87,543.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balance at April 1, 2004—governmental funds	\$ 858,504
Restatement for misstatement in prior year state shared revenue accrual	15,232
Restatement for misstatement in prior year property tax revenue accrual	<u>72,311</u>
Fund balance at April 1, 2004—governmental funds, restated	946,047
Capital assets, net	<u>145,945</u>
Restated net assets at April 1, 2004	<u>\$ 1,091,992</u>

**1. Reporting Entity**

Shelby Township (Township) is a common law township governed by an elected five-member board.

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Shelby Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Shelby Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued**

Additionally, the Township reports the following fund type:

The Agency Funds account for all assets held by the Township on behalf of others in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

**4. Assets, Liabilities and Net Assets or Equity**

**a. Deposits and Investments**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, banker's acceptances, state-approved investment pools and certain mutual funds.

All investments are stated at fair value.

**b. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Shelby Township  
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**b. Receivables and Payables—Continued**

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 state taxable value for real/personal property of the Township totaled approximately \$70,754,000. The ad valorem taxes levied consisted of 1.2231 mills for the Township's operating purposes. These amounts are recognized in the General Fund.

**c. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Equipment	5

**d. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**e. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Shelby Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first week of March, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Not later than the last week in March, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level.

**2. Excess of Expenditures Over Appropriations**

For the year ended March 31, 2005, actual expenditures exceeded appropriations for street improvements in the General Fund by \$115,436. This overexpenditure was funded with available fund balance.

**NOTE C—DEPOSITS AND INVESTMENTS**

**1. Deposits**

The Township's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of March 31, 2005, the Township's carrying amount of deposits was \$170,562, and the bank balance was \$183,125. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$83,125 was uninsured and uncollateralized.

Shelby Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**2. Investments**

As of March 31, 2005, the Township's investments represented holdings in certificates of deposits. During the year ended March 31, 2005, the Township's investments were only in these types of investments.

The Township's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Township's name.

	Category			Fair value amount
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificates of deposit	\$ <u>300,000</u>	\$ <u>412,849</u>	\$ <u>-</u>	\$ <u>712,849</u>

Below is a summary of the combined balance sheet deposits and investments:

	Governmental activities	Fiduciary funds	Total
Cash and investments	\$ <u>838,586</u>	\$ <u>44,825</u>	\$ <u>883,411</u>

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2005 was as follows:

	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 34,900	\$ -	\$ -	\$ 34,900
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	115,839	-	-	115,839
Furniture and equipment	-	2,000	-	2,000
Total capital assets, being depreciated:	115,839	2,000	-	117,839
<b>Less accumulated depreciation:</b>				
Buildings and improvements	4,794	3,796	-	8,590
Furniture and equipment	-	300	-	300
Total accumulated depreciation	4,794	4,096	-	8,890
Total capital assets, being depreciated, net	111,045	(2,096)	-	108,949
Capital assets, net	\$ <u>145,945</u>	\$ <u>(2,096)</u>	\$ <u>-</u>	\$ <u>143,849</u>

**Government activities:**

Depreciation expense was charged to functions as follows:

General government	\$ <u>4,096</u>
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Shelby Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE E—OTHER INFORMATION**

**1. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

**2. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

**NOTE F—PENSION PLANS**

The Township provides pension benefits for its supervisor, treasurer, clerk and certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan is administered through Edward Jones, an independent third party. Both the Township and employees are required to contribute an amount equal to 3 percent of the qualified employees' annual compensation each plan year. For the year ended March 31, 2005, pension expense was approximately \$1,600. Employee contributions were approximately \$3,400.

**NOTE G—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent approximately 46 percent of General Fund revenues.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Shelby Township  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended March 31, 2005

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 145,000	\$ 145,000	\$ 111,142	\$ (33,858)
Licenses and permits	-	-	911	911
Intergovernmental revenues - state	110,000	110,000	116,508	6,508
Charges for services	-	-	984	984
Investment earnings	2,500	2,500	14,993	12,493
Other	8,000	8,000	8,219	219
Total revenues	265,500	265,500	252,757	(12,743)
EXPENDITURES				
Current				
General government				
Township board	60,000	60,000	41,553	18,447
Supervisor	11,000	11,000	10,892	108
Treasurer	25,000	25,000	25,440	(440)
Assessor	35,000	35,000	29,287	5,713
Clerk	14,000	14,000	14,310	(310)
Elections	6,000	6,000	5,380	620
Cemetery	8,000	8,000	7,587	413
Board of review	1,500	1,500	1,610	(110)
Public works				
Street improvements	60,000	60,000	175,436	(115,436)
Landfill	1,000	1,000	568	432
Streetlights	1,500	1,500	1,075	425
Community and economic development				
Planning and zoning	15,000	15,000	12,477	2,523
Culture and recreation				
Library	1,500	1,500	1,314	186
Other governmental functions	24,000	24,000	326	23,674
Capital outlay	2,000	2,000	2,000	-
Total expenditures	265,500	265,500	329,255	(63,755)
Net change in fund balance	\$ -	\$ -	(76,498)	\$ (76,498)
Fund balance at April 1, 2004, restated			946,047	
Fund balance at March 31, 2005			\$ 869,549	